

Frontier Developments plc

FY23 Interim Results

Frontier Developments plc (AIM: FDEV, 'Frontier', the 'Company', or the 'Group'), a leading developer and publisher of video games based in Cambridge, UK, publishes its unaudited interim results for the 6 months to 30 November 2022 ('H1 FY23').

Financial Headlines

	H1 FY23 (6 months to 30 November 2022)	H1 FY22 (6 months to 30 November 2021)	FY22 (12 months to 31 May 2022)
Revenue	£57.1m	£49.1m	£114.0m
Operating profit/(loss)	£6.9m	(£1.3m)	£1.5m
EBITDA*	£19.1m	£14.1m	£41.1m
Adjusted EBITDA**	(£0.6m)	(£0.9m)	£6.7m
EPS (basic)	17.2p	(4.2p)	24.6p
Net cash balance at period end	£42.6m	£33.6m	£38.7m

*Earnings before interest, tax, depreciation and amortisation.

** Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation charges related to game developments and Frontier's game technology, less investments in game developments and Frontier's game technology, and excluding share-based payment charges and other non-cash items.

- Revenue increased by 16% over the comparative period to £57.1 million (H1 FY22: 49.1 million) through the release of *F1® Manager 2022* in August 2022, ongoing sales of the current portfolio and new PDLC (paid-downloadable content) for existing games
- Gross profit margin of 63% was consistent with the comparative period (H1 FY22: 63%), underpinned by the continued contribution from the existing portfolio
- Net R&D expenses reduced by £2.5 million to £16.1 million (H1 FY22: £18.6 million) mainly as a result of the full amortisation of *Elite Dangerous: Odyssey* during FY22
- Operating profit rebounded to £6.9 million (H1 FY22: a loss of £1.3 million) through a combination of a higher revenue and lower R&D costs
- Adjusted EBITDA, a measure of cash profit, remained as a small net outflow (an outflow of £0.6 million versus an outflow of £0.9 million in H1 FY22), reflecting continued investment in future titles and support for existing games
- Net cash balance was £42.6 million at 30 November 2022 (31 May 2022: £38.7 million). Net cash grew by £3.9 million during the period despite an £8.8 million cash outflow in November 2022 for the acquisition of Complex Games

Operational & Strategic Headlines

- Frontier's develop, launch and nurture strategy continues to deliver material annual revenue from each game over many years
 - As expected, the strongest performers in FY23 to date from our existing portfolio are *Jurassic World Evolution 2* and *Planet Zoo*, which continue to be supported with free updates and multiple PDLC packs
 - *Jurassic World Evolution 2*, which released in November 2021, delivered £73 million in its first 14 months (to 31 December 2022), which is 96% of the revenue achieved by 2018's *Jurassic World Evolution* in its first 14 months (£76 million)
 - *Planet Zoo*, launched in November 2019, continues to contribute strong annual sales, with revenue in CY2022 at 82% of the revenue recorded in CY2021
 - As reported in the trading update on 9 January 2023, sales performance during key price promotions in December 2022 (after the reported period) fell below expectations, with some evidence of increased player price sensitivity adversely impacting sales across the portfolio

- *F1® Manager 2022*, the first annual title in a major new sports franchise for Frontier, was released at the end of August 2022;
 - Player engagement at release in August 2022 and during the initial period after release was strong, and broadly in-line with original expectations
 - Over 600,000 units have been sold to date across PC, Xbox and PlayStation, including both digital and physical unit sales on console
 - Metacritic ratings are between 74 and 80 across the three platforms
 - Unfortunately, sales performance during key holiday season price promotions (after the reported period) fell materially below original expectations, as reported in the trading update on 9 January 2023, potentially due in part to increased player price sensitivity related to worsening economic conditions
 - *F1® Manager 2022* remains a good first game in an important new annual franchise for Frontier
 - We will continue to enhance the *F1® Manager* franchise over the coming years on the solid foundations provided by the first game

- We are assessing our strategy for Frontier Foundry, our games label for third-party publishing;
 - Foundry has supported eight different games to date, with six released games and two titles launching in the next few months
 - Given our mixed financial success to date and in the context of increased competition in the third-party publishing market, we are assessing our strategy for Foundry. In particular, we are focussing on return on investment
 - Whilst we remain committed to, and excited by, the titles currently in development for release in FY23, we currently do not have any Foundry titles scheduled for release in FY24, although we will continue to earn revenue from titles released prior to FY24
 - The assessment of the strategy for Foundry is expected to complete by the end of May 2023

Current Trading and Outlook

Following a lower sales performance in December than expected, and the ongoing assessment of Foundry, the Board reset its financial expectations for FY23 and FY24 in a trading update on 9 January 2023.

The outturn over the five remaining months of this financial year is dependent on a number of variables, including the timing and contribution from the scheduled Foundry releases and the macro-economic environment. The Board believes it is still possible to surpass last year's record revenue performance of £114 million, particularly if one of the upcoming Foundry titles is a conspicuous success. However, given the number of variables and the more challenging economic outlook, the Board have set a minimum expectation of delivering revenue of not less than £100 million in FY23.

The Board's expectation for revenue for FY23 of £100 million to £114 million, would deliver an IFRS operating profit in the range £2 million to £10 million.

The Board has set its expectations for FY24 revenue growth at 5% above the eventual revenue outcome for FY23, in light of current market and portfolio uncertainties, and the absence of new titles from Foundry releasing in FY24.

FY24 will benefit from the release of our *Warhammer Age of Sigmar* real-time strategy game and *F1® Manager 2023*.

For FY25 we have two new game releases planned, with *F1® Manager 2024* plus an own-IP creative management simulation game.

Jonny Watts, Frontier's CEO, said

"I would like to thank our teams for their hard work and dedication during a busy 2022 for Frontier. During the first half of the financial year our game portfolio performed largely in line with expectations. However, the key December trading period was below expectations and we believe this was partly due to increased player price sensitivity.

As we look forward, there are important lessons we have learned for the F1® Manager franchise, including making the game more accessible and engaging to a wider audience. I am confident that we have delivered a good first game to build upon.

We have announced a review of Frontier Foundry, which we expect to complete by the end of the financial year, as a result of the financial challenges and competition for that third-party publishing business model. We continue to look forward to the releases of Deliver us Mars and The Great War: Western Front in the next few months. They offer upside potential but we are being cautious given our experience of the market in December.

Our Warhammer Age of Sigmar real-time strategy game remains on track for release in FY24 and I look forward to sharing more details in due course.

Overall we believe our core strategy remains sound. We have a strong portfolio of good games and a large and talented team of people. We will continue to work together to navigate our challenges and deliver on our opportunities."

There will be a call for analysts and institutional investors at 9:30a.m. today. To register please contact frontier@tulchangroup.com

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About Frontier Developments plc

Frontier is a leading independent developer and publisher of videogames founded in 1994 by David Braben, co-author of the iconic Elite game. Based in Cambridge, Frontier uses its proprietary COBRA game development technology to create innovative genre-leading games, primarily for personal computers and videogame consoles. As well as self-publishing internally developed games, Frontier also publishes games developed by carefully selected partner studios under its Frontier Foundry games label.

Frontier's LEI number: 213800B9LGPWUAZ9GX18.

www.frontier.co.uk

Interim Results Statement

REVENUE

Total revenue in H1 FY23 grew to £57.1 million, 16% ahead of the comparative period (H1 FY22: £49.1 million). Two-thirds of revenue in the period was generated by existing games which had been released before June 2022, with one-third of revenue coming from new games released in the period, namely *F1® Manager 2022* and Foundry title *Stranded: Alien Dawn*.

Ongoing material revenue contributions from the genre-leading games in the existing portfolio shows the strength of Frontier's develop, launch and nurture strategy. As expected, the strongest performers in the period from the existing portfolio were *Jurassic World Evolution 2* and *Planet Zoo*, which were both supported with free updates and multiple PDLC packs. During 2022, *Jurassic World Evolution 2* benefitted from two large expansions inspired by the content and themes from the June 2022 release of the *Jurassic World Dominion* film, with the *Jurassic World Evolution 2: Dominion Biosyn Expansion* in June 2022 (H1 FY23) and the *Jurassic World Evolution 2: Dominion Malta Expansion* in December 2022 (H2 FY23). Across the whole portfolio, PDLC accounted for 30% of total revenue in H1 FY23 (H1 FY22: 25%).

COSTS AND PROFITABILITY

Gross profit grew to £36.1 million in the period (H1 FY22: £30.8 million) through the increased level of sales, with the gross profit margin percentage maintained at 63% (H1 FY22: 63%) as a result of the strong performance of the existing portfolio. Frontier's gross margin percentage tends to vary between periods based on the revenue mix of own-IP games, licenced-IP games and Foundry titles.

Gross research and development expenses in the period increased by 16% to £25.9 million (H1 FY22: £22.2 million). The increase was driven by the continued rise in people costs to support Frontier's development plans, including headcount growth. Partly offsetting the increased investment in internal people costs, was a planned reduction in outsourced development costs. Significant outsource costs were incurred during the development of *F1® Manager 2022*, mainly during FY22, to deliver the large number of assets required for the twenty-two circuits which featured during the 2022 *F1®* season. The Group will continue to benefit from this initial investment, as the majority of those assets will be utilised in future *F1® Manager* titles.

Capitalisation of development costs on game developments and Frontier's game technology accounted for £18.4 million in the period (H1 FY22: £15.8 million). The percentage of gross research and development costs which were capitalised was maintained at 71% (H1 FY22: 71%). Providing free updates and content post-release is an important element of Frontier's nurturing strategy, generating return on investment. Development costs for free updates and content are expensed as they are incurred, with only development cost for chargeable content being capitalised. During H1 FY23, free updates and content were developed and released for *Jurassic World Evolution 2*, *Planet Zoo*, and *Elite Dangerous*, often alongside chargeable content. Frontier's normal expectations for capitalisation is 70-90% of gross development spending.

R&D amortisation charges related to previously capitalised game developments and Frontier's game technology reduced to £8.6 million (H1 FY22: £12.2 million). Charges in H1 FY22 included a full six months of amortisation for major expansion *Elite Dangerous: Odyssey* (a May 2021 release) which temporarily boosted amortisation charges. *Elite Dangerous: Odyssey* was eventually fully amortised in FY22, with additional charges being recorded in H2 FY22.

As a result of the lower level of amortisation charges in H1 FY23 versus the comparative period, net research and development expenses as recorded in the Income Statement fell by 14% to £16.1 million (H1 FY22: £18.6 million), being gross spend of £25.9 million, less capitalised costs of £18.4 million, plus amortisation charges of £8.6 million.

Sales and marketing expenses in the period reduced slightly to £6.9 million (H1 FY22: £7.5 million), with administrative expenses increasing slightly to £6.3 million in the period (H1 FY22: £6.0 million), partly related to professional costs for the acquisition of Complex Games in November 2022.

With higher revenue and lower R&D costs, operating profit rebounded to a profit of £6.9 million in the period versus a £1.3 million operating loss in H1 FY22.

Adjusted EBITDA, a measure of cash profit, remained as a small net outflow in the period (an outflow of £0.6 million versus an outflow of £0.9 million in H1 FY22), as Frontier continues to invest strongly in future titles whilst supporting existing games.

A net zero corporation tax charge was recorded in the Income Statement for the period (H1 FY22: £nil), since for the full financial year enhanced deductions from the Video Game Tax Relief scheme are expected to offset any tax charges on profits. The Group expects to provide additional corporation tax disclosures in the FY23 financial statements.

A profit after tax of £6.7 million was recorded in the period (H1 FY22: loss of £1.7 million). Basic earnings per share was 17.2 pence (H1 FY22: loss per share of 4.2 pence).

BALANCE SHEET AND CASH FLOW

The Group continues to benefit from a strong balance sheet, with cash balances of £42.6 million at 30 November 2022 (31 May 2022: £38.7 million; 30 November 2021: £33.6 million). The acquisition of Complex Games in November 2022 resulted in a net cash outflow of £8.8 million. Excluding that outflow, cash would have increased by £12.7 million during H1 FY23. That increase in cash came mainly from working capital movements and tax; cash balances were boosted by a £9 million net working capital inflow, as high levels of receivables as at 31 May 2022 unwound, and £4 million was received from HMRC for Video Game Tax relief claims relating to FY21. Adjusted EBITDA, a measure of cash profitability, was a small net outflow (£0.6 million) in H1 HY23 as Frontier continues to invest strongly in new titles whilst supporting existing games.

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD ENDED 30 NOVEMBER 2022

	Notes	6 months to 30 November 2022 £'000	6 months to 30 November 2021 £'000	12 months to 31 May 2022 £'000
Revenue	6	57,118	49,116	114,032
Cost of sales		(20,984)	(18,326)	(40,420)
Gross profit		36,134	30,790	73,612
Research and development expenses	12	(16,052)	(18,593)	(46,179)
Sales and marketing expenses		(6,893)	(7,503)	(12,339)
Administrative expenses		(6,333)	(6,037)	(13,558)
Operating profit/(loss)		6,856	(1,343)	1,536
Net finance costs		(137)	(310)	(592)
Profit/(loss) before tax		6,719	(1,653)	944
Income tax		-	-	8,684
Profit/(loss) for the period attributable to shareholders		6,719	(1,653)	9,628
Earnings per share				
Basic earnings per share	7	17.2p	(4.2p)	24.6p
Diluted earnings per share	7	16.5p	(4.2p)	23.7p

All the activities of the Group are classified as continuing.

The accompanying accounting policies and notes form part of this financial information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 NOVEMBER 2022

	6 months to 30 November 2022 £'000	6 months to 30 November 2021 £'000	12 months to 31 May 2022 £'000
Profit/(loss) for the period	6,719	(1,653)	9,628
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	23	(12)	(19)
Total comprehensive income/(loss) for the period attributable to the equity holders of the parent	6,742	(1,665)	9,609

The accompanying accounting policies and notes form part of this financial information.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**AS AT 30 NOVEMBER 2022***(REGISTERED COMPANY NO: 02892559)*

	Notes	30 November 2022 £'000	30 November 2021 £'000	31 May 2022 £'000
Non-current assets				
Intangible assets	8	79,012	73,508	70,833
Property, plant and equipment	9	6,171	6,967	6,640
Goodwill	11	10,385	-	-
Right-of-use asset		18,673	20,296	19,484
Deferred tax asset		1,349	384	1,348
Total non-current assets		115,590	101,155	98,305
Current assets				
Trade and other receivables		11,191	27,845	24,705
Current tax asset		4,094	2,511	7,867
Cash and cash equivalents		42,639	33,561	38,699
Total current assets		57,924	63,917	71,271
Total assets		173,514	165,072	169,576
Current liabilities				
Trade and other payables		(18,430)	(20,167)	(21,797)
Lease liability		(1,483)	(1,440)	(1,461)
Deferred income		(2,769)	(1,327)	(2,466)
Total current liabilities		(22,682)	(22,934)	(25,724)
Net current assets		35,242	40,983	45,547
Non-current liabilities				
Provisions		(63)	(49)	(56)
Lease liability		(18,525)	(20,008)	(19,278)
Other payables		(5,547)	(8,825)	(6,148)
Total non-current liabilities		(24,135)	(28,882)	(25,482)
Total liabilities		(46,817)	(51,816)	(51,206)
Net assets		126,697	113,256	118,370
Equity				
Share capital	10	197	197	197
Share premium account		36,468	36,368	36,468
Equity reserve		(11,998)	(8,635)	(12,769)
Foreign exchange reserve		5	(11)	(18)
Retained earnings		102,025	85,337	94,492
Total equity		126,697	113,256	118,370

The accompanying accounting policies and notes form part of this financial information.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 NOVEMBER 2022**

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
At 31 May 2021	197	36,079	(9,351)	1	86,228	113,154
Loss for the period	–	–	–	–	(1,653)	(1,653)
Other comprehensive income:						
Exchange differences on translation of foreign operations	–	–	–	(12)	–	(12)
Total comprehensive loss for the period	–	–	–	(12)	(1,653)	(1,665)
Issue of share capital net of expenses	–	289	–	–	–	289
Share-based payment charges	–	–	1,175	–	–	1,175
Share-based payment transfer relating to option exercises and lapses	–	–	(762)	–	762	–
Employee Benefit Trust net cash inflows from option exercises	–	–	303	–	–	303
Transactions with owners	–	289	716	–	762	1,767
At 30 November 2021	197	36,368	(8,635)	(11)	85,337	113,256
Profit for the period	–	–	–	–	11,281	11,281
Other comprehensive income:						
Exchange differences on translation of foreign operations	–	–	–	(7)	–	(7)
Total comprehensive income for the period	–	–	–	(7)	11,281	11,274
Issue of share capital net of expenses	–	100	–	–	–	100
Share-based payment charges	–	–	1,277	–	–	1,277
Share-based payment transfer relating to option exercises and lapses	–	–	(614)	–	614	–
Employee Benefit Trust cash outflows from share purchases	–	–	(5,000)	–	–	(5,000)
Employee Benefit Trust net cash inflows from option exercises	–	–	203	–	–	203
Deferred tax movements posted directly to reserves	–	–	–	–	(2,740)	(2,740)
Transactions with owners	–	100	(4,134)	–	(2,126)	(6,160)
At 31 May 2022	197	36,468	(12,769)	(18)	94,492	118,370
Profit for the period	–	–	–	–	6,719	6,719
Other comprehensive income:						
Exchange differences on translation of foreign operations	–	–	–	23	–	23
Total comprehensive income for the period	–	–	–	23	6,719	6,742
Share-based payment charges	–	–	1,305	–	–	1,305
Share-based payment transfer relating to option exercises and lapses	–	–	(814)	–	814	–
Employee Benefit Trust net cash inflows from option exercises	–	–	280	–	–	280
Transactions with owners	–	–	771	–	814	1,585
At 30 November 2022	197	36,468	(11,998)	5	102,025	126,697

The accompanying accounting policies and notes form part of this financial information.

**CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE PERIOD ENDED 30 NOVEMBER 2022**

	6 months to 30 November 2022	6 months to 30 November 2021	12 months to 31 May 2022
	£'000	£'000	£'000
Profit before taxation	6,719	(1,653)	944
<i>Adjustments for:</i>			
Depreciation and amortisation	12,289	15,481	32,199
Impairment of intangible assets	–	–	7,398
Movement in unrealised exchange (gains)/losses on forward contracts	(817)	1,224	474
Share-based payment expenses	1,305	1,175	2,452
Interest received	(166)	(14)	(57)
Payment of interest element of lease liabilities	303	325	649
Research and Development Expenditure Credit (RDEC)	–	–	(375)
<i>Working capital changes:</i>			
Change in trade and other receivables	15,451	(14,105)	(10,964)
Change in trade and other payables	(6,228)	2,929	4,465
Change in provisions	7	7	15
Cash generated from operations	28,863	5,369	37,200
Taxes received	4,021	3,957	3,956
Net cash flows from operating activities	32,884	9,326	41,156
Investing activities			
Purchase of property, plant and equipment	(645)	(1,779)	(2,500)
Expenditure on intangible assets	(18,895)	(15,969)	(36,243)
Acquisition of subsidiaries (net of cash acquired)	(8,847)	–	–
Interest received	166	14	57
Net cash flows used in investing activities	(28,221)	(17,734)	(38,686)
Financing activities			
Proceeds from issue of share capital	–	289	389
Employee Benefit Trust cash outflows from share purchases	–	–	(5,000)
Employee Benefit Trust cash inflows from option exercises	280	303	506
Payment of principal element of lease liabilities	(731)	(709)	(1,419)
Payment of interest element of lease liabilities	(303)	(325)	(649)
Net cash flows used in financing activities	(754)	(442)	(6,173)
Net change in cash and cash equivalents from continuing operations	3,909	(8,850)	(3,703)
Cash and cash equivalents at beginning of period	38,699	42,423	42,423
Exchange differences on cash and cash equivalents	31	(12)	(21)
Cash and cash equivalents at end of period	42,639	33,561	38,699

The accompanying accounting policies and notes form part of this financial information.

NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Frontier Developments plc (the 'Company') and its subsidiaries (together, the 'Group') develops and publishes video games for the interactive entertainment sector. The Company is a public limited company and is incorporated and domiciled in the United Kingdom.

The address of its registered office is 26 Science Park, Milton Road, Cambridge CB4 0FP.

The Group's operations are based in the UK, with subsidiaries based in Canada and the US.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Basis of preparation

The consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34), as issued by the International Accounting Standards Board (IASB) and as adopted by the UK, and the disclosure requirements of the Listing Rules.

The consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006, and have not been audited or reviewed by the Company's auditors.

The consolidated interim financial statements should be read in conjunction with the financial statements for the year ended 31 May 2022.

Statutory accounts for the year ended 31 May 2022 were approved by the Board of Directors on 21 September 2022 and delivered to the Registrar of Companies. The Auditor's Report was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The financial information has been prepared under the historical cost convention except for financial instruments held at fair value. The financial information is presented in Sterling, the presentation and functional currency for the Group and Company. All values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

Going concern basis

The Group's forecasts and projections, taking account of current cash resources and reasonably possible changes in trading performance, support the conclusion that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of approval of these financial statements. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

3. ACCOUNTING POLICIES

Except for the application for UK-adopted international accounting standards, for which there are no material differences from International Financial Reporting Standards as issued by the IASB and adopted by the EU when applied to the Group, the consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 May 2022.

4. ACCOUNTING ESTIMATES AND KEY JUDGEMENTS

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurements of assets, liabilities, income and expenses. The actual results may differ from these estimates.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual financial statements for the year ended 31 May 2022.

5. SIGNIFICANT EVENTS AND TRANSACTIONS

There were no significant events or transactions in the interim period (1 June 2022 to 30 November 2022) which were not included within the interim financial statements. There have been no significant events or transactions during the period from the end of the interim period to the day preceding the date of this report (1 December 2022 to 18 January 2023).

6. SEGMENT INFORMATION

The Group identifies operating segments based on internal management reporting that is regularly reviewed by the chief operating decision maker and reported to the Board. The chief operating decision maker is the Chief Executive Officer.

Management information is reported as one operating segment, being revenue from publishing games and revenue from other streams such as royalties and licensing.

The Group does not provide any information on the geographical location of sales as the majority of revenue is through third-party distribution platforms which are responsible for the sales data of consumers. The cost to develop this information internally would be excessive.

The majority of the Group's non-current assets are held within the UK.

All material revenue is categorised as either publishing revenue or other revenue.

The Group typically satisfies its performance obligations at the point that the product becomes available to the customer.

Other revenue mainly related to royalty income in H1 FY23, H1 FY22 and FY22.

	6 months to 30 November 2022	6 months to 30 November 2021	12 months to 31 May 2022
	£'000	£'000	£'000
Publishing revenue	56,971	48,893	113,555
Other revenue	147	223	477
Total revenue	57,118	49,116	114,032
Cost of sales	(20,984)	(18,326)	(40,420)
Gross profit	36,134	30,790	73,612
Research and development expenses	(16,052)	(18,593)	(46,179)
Sales and marketing expenses	(6,893)	(7,503)	(12,339)
Administrative expenses	(6,333)	(6,037)	(13,558)
Operating profit/(loss)	6,856	(1,343)	1,536
Net finance costs	(137)	(310)	(592)
Profit/(loss) before tax	6,719	(1,653)	944
Income tax	–	–	8,684
Profit/(loss) for the period attributable to shareholders	6,719	(1,653)	9,628

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit/(loss) attributable to the shareholders of Frontier Developments plc divided by the weighted average number of shares in issue during the period.

	6 months to 30 November 2022	6 months to 30 November 2021	12 months to 31 May 2022
Profit/(loss) attributable to shareholders (£'000)	6,719	(1,653)	9,628
Weighted average number of shares	39,018,948	39,162,921	39,172,987
Basic earnings per share (p)	17.2	(4.2)	24.6

The calculation of the diluted earnings per share is based on the profit/(loss) attributable to the shareholders of Frontier Developments plc divided by the weighted average number of shares in issue during the period as adjusted for the dilutive effect of share options.

	6 months to 30 November 2022	6 months to 30 November 2021	12 months to 31 May 2022
Profit/(loss) attributable to shareholders (£'000)	6,719	(1,653)	9,628
Diluted weighted average number of shares	40,598,671	39,162,921	40,606,756
Diluted earnings per share (p)	16.5	(4.2)	23.7

The reconciliation of the average number of Ordinary Shares used for basic and diluted earnings per share is as follows:

	6 months to 30 November 2022	6 months to 30 November 2021	12 months to 31 May 2022
Weighted average number of shares	39,018,948	39,162,921	39,172,987
Dilutive effect of share options	1,579,723	-	1,433,769
Diluted average number of shares	40,598,671	39,162,921	40,606,756

The dilutive effect of share options is nil for the 6 months to 30 November 2021 because a loss was recorded for that period.

8. INTANGIBLE ASSETS

	Game technology £'000	Game developments £'000	Third-party software £'000	IP licences £'000	Total £'000
Cost					
At 31 May 2021	17,009	97,119	2,060	11,185	127,373
Additions	1,254	14,557	158	–	15,969
At 30 November 2021	18,263	111,676	2,218	11,185	143,342
Additions	1,470	17,939	172	–	19,581
Disposals	–	(222)	–	–	(222)
At 31 May 2022	19,733	129,393	2,390	11,185	162,701
Additions	1,643	16,786	106	–	18,535
On acquisition	–	–	62	–	62
At 30 November 2022	21,376	146,179	2,558	11,185	181,298
Amortisation and impairment					
At 31 May 2021	7,058	46,434	1,227	1,336	56,055
Amortisation charges	1,058	11,115	229	1,377	13,779
At 30 November 2021	8,116	57,549	1,456	2,713	69,834
Amortisation charges	1,057	13,245	195	361	14,858
Impairment charge	–	7,398	–	–	7,398
Disposals	–	(222)	–	–	(222)
At 31 May 2022	9,173	77,970	1,651	3,074	91,868
Amortisation charges	1,512	7,293	210	1,341	10,356
On acquisition	–	–	62	–	62
At 30 November 2022	10,685	85,263	1,923	4,415	102,286
Net book value					
Net book value at 30 November 2022	10,691	60,916	635	6,770	79,012
Net book value at 31 May 2022	10,560	51,423	739	8,111	70,833
Net book value at 30 November 2021	10,147	54,127	762	8,472	73,508
Net book value at 31 May 2021	9,951	50,685	833	9,849	71,318

9. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 31 May 2021	863	4,156	5,358	10,377
Additions	–	1,779	–	1,779
At 30 November 2021	863	5,935	5,358	12,156
Additions	5	716	–	721
At 31 May 2022	868	6,651	5,358	12,877
Additions	–	606	39	645
On acquisition	12	98	53	163
At 30 November 2022	880	7,355	5,450	13,685
Depreciation				
At 31 May 2021	546	2,737	1,016	4,299
Charge for the period	75	648	167	890
At 30 November 2021	621	3,385	1,183	5,189
Charge for the period	75	805	168	1,048
At 31 May 2022	696	4,190	1,351	6,237
Charge for the period	75	878	168	1,121
On acquisition	5	98	53	156
At 30 November 2022	776	5,166	1,572	7,514
Net book value				
Net book value at 30 November 2022	104	2,189	3,878	6,171
Net book value at 31 May 2022	172	2,461	4,007	6,640
Net book value at 30 November 2021	242	2,550	4,175	6,967
Net book value at 31 May 2021	317	1,419	4,342	6,078

10. SHARE CAPITAL

	Number	Nominal Value £
At 1 June 2021	39,343,604	196,718
Shares issued on option exercises and warrants	49,651	248
At 30 November 2021	39,393,255	196,966
Shares issued on option exercises and warrants	30,094	151
At 31 May 2022	39,423,349	197,117
Shares issued on option exercises and warrants	–	–
At 30 November 2022	39,423,349	197,117

11. ACQUISITION OF COMPLEX GAMES INC

On 1 November 2022, Frontier Developments plc acquired experienced game development studio Complex Games Inc ('Complex') following a successful collaboration with the development and launch of *Warhammer 40,000: Chaos Gate – Daemonhunters*.

Frontier acquired 100% of the share capital in Complex for an upfront cash consideration of CAD\$13 million (GBP£8.3 million) and conditional deferred cash consideration of up to CAD\$5.16 million (GBP£3.3 million), which is payable subject to Complex meeting certain operational milestones during the period to 31 December 2023.

In addition, the four employee shareholders – the two founders and the two studio principals – will participate in a profit-share earn-out of up to CAD\$11.76 million (GBP£7.5 million) payable over 5 years.

Acquisition accounting in the H1 FY23 financial results is provisional, due to the short time since the acquisition of Complex and the date of the interim financial statements. The assessment of the fair value of the assets acquired is subject to change, since the purchase price allocation review is still in progress. It is expected that this work will be completed by 31 May 2023 to enable the acquisition accounting to be finalised in the full year FY23 financial results.

In the H1 FY23 financial results, a provisional fair value of the assets of Complex as at 1 November 2022 of CAD\$2.0 million (GBP£1.3 million) has been applied. After adjusting the total of the upfront consideration (CAD\$13 million, GBP£8.3 million) and deferred consideration (CAD\$5.16 million, GBP£3.3 million) for the net position on cash and working capital, the total consideration accounted for was CAD\$18.4 million (GBP£11.7 million). This has resulted in a provisional goodwill balance of GBP£10.4 million, which is included on the Consolidated Statement of Financial Position in the interim financial statements.

12. KEY PERFORMANCE INDICATORS – NON-STATUTORY MEASURES

In addition to measures of financial performance derived from IFRS reported results – revenue, operating profit, operating profit margin percentage, earnings per share and net cash balance – Frontier publishes, and provides commentary on, financial performance measurements derived from non-statutory calculations. Frontier believes these supplementary measures, when read in conjunction with the measures derived directly from statutory financial reporting, provide a better understanding of Frontier’s overall financial performance.

EBITDA

EBITDA, being earnings before tax, interest, depreciation and amortisation, is commonly used by investors when assessing the financial performance of companies. It attempts to arrive at a ‘cash profit’ figure by adjusting operating profit for non-cash depreciation and amortisation charges. In Frontier’s case, EBITDA does not provide a clear picture of the Group’s cash profitability, as it adds back amortisation charges relating to game developments, but without deducting the investment costs for those developments, resulting in a profit measure which does not take into account any of the costs associated with developing games. Since EBITDA is a commonly used financial performance measure, it has been included below for the benefit of readers of the accounts who may value that measure of performance.

	6 months to 30 November 2022	6 months to 30 November 2021	12 months to 31 May 2022
	£’000	£’000	£’000
Operating profit/(loss)	6,856	(1,343)	1,536
Depreciation and amortisation	12,291	15,481	32,199
Impairment of intangible assets	–	–	7,398
EBITDA	19,147	14,138	41,133

Adjusted EBITDA

Frontier also discloses an Adjusted EBITDA measure which, in the Company’s view, provides a better representation of ‘cash profit’ than EBITDA. Adjusted EBITDA for Frontier is defined as earnings before interest, tax, depreciation and amortisation charges related to game developments and Frontier’s game technology, less investments in game developments and Frontier’s game technology, and excluding share-based payment charges and other non-cash items. This effectively provides the cash profit figure that would have been achieved if Frontier expensed all game development investment as it was incurred, rather than capitalising those costs and amortising them over several years.

	6 months to 30 November 2022	6 months to 30 November 2021	12 months to 31 May 2022
	£’000	£’000	£’000
Operating profit/(loss)	6,856	(1,343)	1,536
Add back non-cash intangible asset amortisation charges for game developments and Frontier’s game technology	8,589	12,173	26,475
Add back non-cash intangible asset impairment charge for game developments	–	–	7,398
Deduct capitalised investment costs in game developments and Frontier’s game technology	(18,429)	(15,811)	(35,220)
Add back non-cash depreciation charges	1,934	1,702	3,562
Add back non-cash movements in unrealised exchange (gains)/losses on forward contracts	(817)	1,224	474
Add back non-cash share-based payment expenses	1,305	1,175	2,452

Adjusted EBITDA	(562)	(880)	6,677
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Research and development (R&D) expenses

Research and development (R&D) expenses recorded in Frontier's Income Statement are arrived at after capitalising game development costs and after recording amortisation charges for games which have been released. Similar to the principles of the Adjusted EBITDA measure showing financial performance as if all game development investments were expensed as incurred, Frontier provides commentary on the difference between gross R&D expenses (before capitalisation/amortisation) and net R&D expenses (after capitalisation/amortisation). The net R&D expenses figure aligns with the R&D expenses recorded in the Income Statement, whereas the gross R&D expenses figure provides a better representation of 'cash spend' on R&D activities.

	6 months to 30 November 2022 £'000	6 months to 30 November 2021 £'000	12 months to 31 May 2022 £'000
Gross R&D expenses	25,892	22,231	47,526
Capitalised investment costs in game developments and Frontier's game technology	(18,429)	(15,811)	(35,220)
Amortisation charges for game developments and Frontier's game technology	8,589	12,173	26,475
Impairment of intangible assets	–	–	7,398
Net R&D expenses	16,052	18,593	46,179